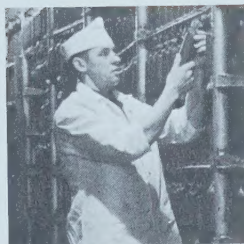
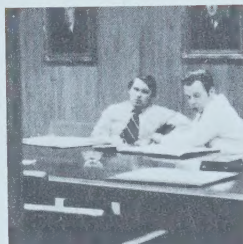


J. M. Schneider, Limited



Annual Report 1972





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J. M. Schneider, Limited
Annual Report 1972



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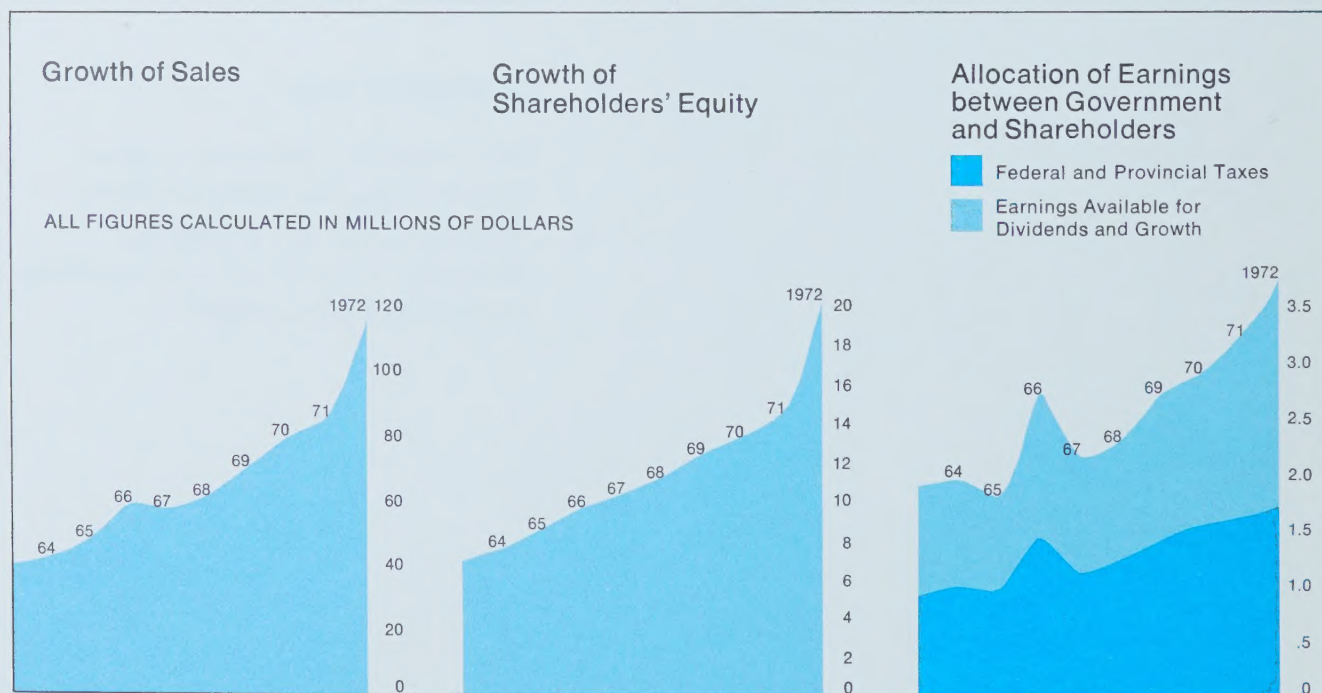
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Annual Meeting

The Annual General Meeting of shareholders will be held at the Valhalla Inn, Kitchener, Ontario on Wednesday, March 28, 1973, at 7:30 p.m. Shareholders are cordially invited to attend.

Financial Highlights

	1972	1971
Sales	\$116,465,000	\$84,163,000
Net earnings	\$ 2,007,000	\$ 1,586,000
Basic earnings per share	93¢	84¢
Percent of sales	1.72%	1.88%
Percent of shareholders' equity	10.02%	10.97%
Dividends (including tax paid on undistributed income)	\$ 601,000	\$ 494,000
Rate per share	28¢	26¢
Working capital	\$ 8,504,000	\$ 5,618,000
Working capital ratio	2.04	2.31
Shareholders' equity	\$ 20,032,000	\$14,452,000
Per share	\$ 8.36	\$ 7.61



Directors and Officers of J. M. Schneider, Limited

DIRECTORS

F. P. SCHNEIDER
R.R. #3 Kitchener
Chairman of the Board

K. G. MURRAY
R.R. #3 Bright
President

J. D. SMALL
Kitchener
Past President

H. J. SCHNEIDER
R.R. #1 Preston
*Vice-President Personnel
& Public Relations*

D. C. JAMIESON
Kitchener
*Vice-President Finance
& Administration*

R. C. SCHEIFLEY
Kitchener
Secretary

H. G. SCHNEIDER
Kitchener
*Vice President & Director
of Research & Development*

J. B. BANKS
Waterloo
Vice-President of Operations

H. W. MAIN
*Executive Vice-President
Marketing*
Electrohome Limited

R. W. STEINBERG
Kitchener
Plant Manager

M. R. GOOD
R.R. #1, Breslau
President & General Manager
H. Boehmer & Co., Limited

G. A. MACKAY, Q.C.
Kitchener
Partner
Bray, Schofield, Mackay,
Kirvan & Guy

OFFICERS

FREDERICK PAUL SCHNEIDER
Chairman of the Board

KENNETH GEORGE MURRAY
President

JAMES BLANDING BANKS
Vice-President of Operations

DAWSON CHARLES JAMIESON
*Vice-President of Finance
& Administration*

ROY CARL SCHEIFLEY
Secretary

GORDON ALEXANDER MACKAY
Assistant Secretary

HOWARD GEORGE SCHNEIDER
*Vice-President & Director
of Research & Development*

HERBERT JOHN SCHNEIDER
*Vice-President of Personnel
& Public Relations*

HENRY GEORGE BEBEN
Vice-President of Sales & Marketing

HONORARY DIRECTOR

N. C. SCHNEIDER
Past Chairman

HEAD OFFICE

J. M. Schneider Limited
321 Courtland Avenue E.
P.O. Box 130
Kitchener, Ontario

REGISTRAR and TRANSFER AGENT

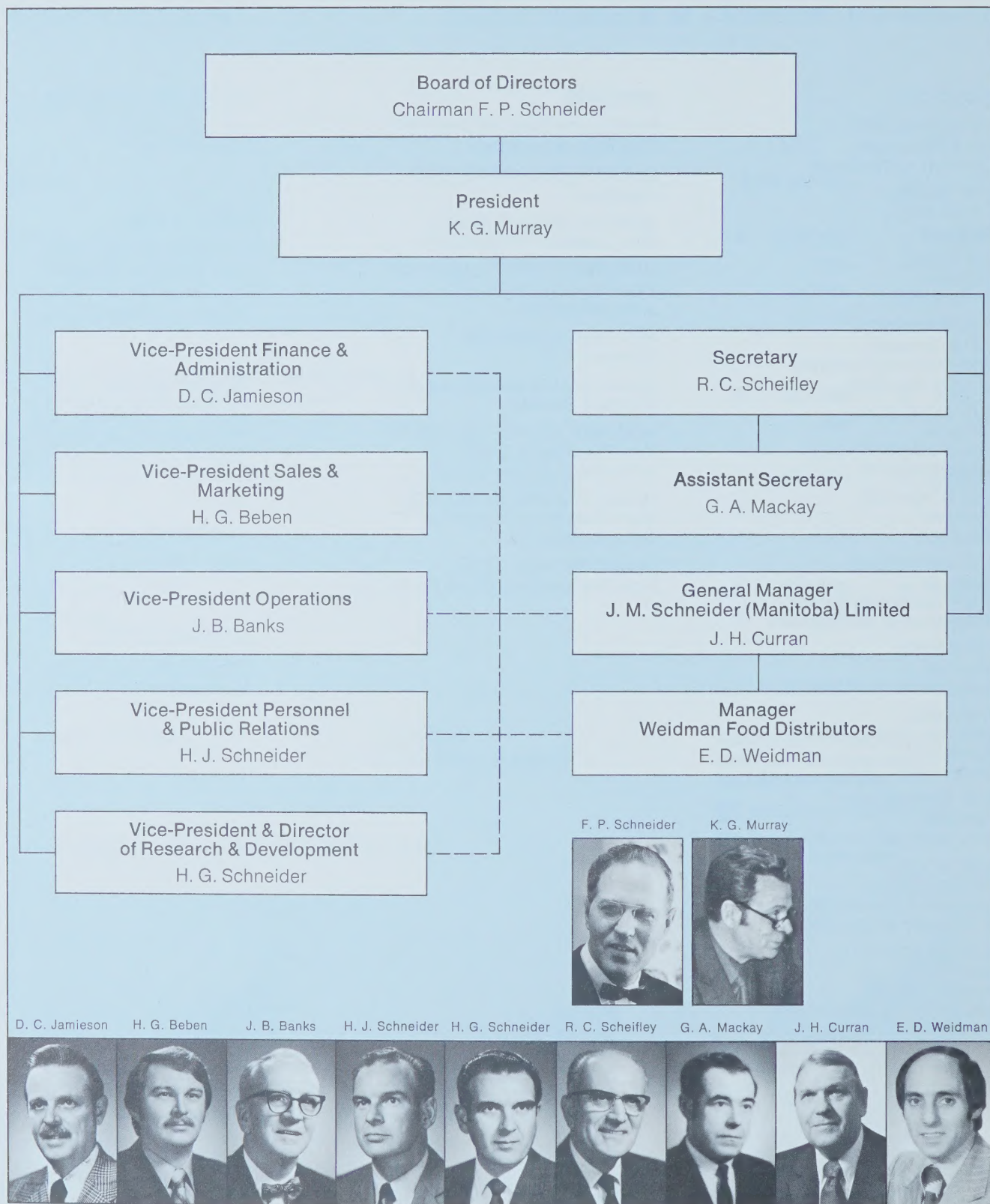
The Canada Trust Company
Toronto, Montreal, Winnipeg

AUDITORS

Thorne, Gunn & Co.

SHARES LISTED

Toronto Stock Exchange
Montreal Stock Exchange



To the Shareholders:

J. M. Schneider, Limited can again report a record year for sales and profits.

Operating in a period marked by increasingly aggressive competition in the food processing industry and high prices for raw materials, the company has maintained its growth pattern of the past five years.

Compared to the 1971 fiscal year, consolidated sales at \$116,465,000 are up 38% and net earnings, at \$2,007,000, have advanced 26.5%.

And while an important part of the dollar sales increase is attributable to the higher selling prices for finished meats and to the effect of acquisitions in the past year, your company's management believes that our organization has now the resources of personnel, production and working capital to achieve further growth, to raise our sales and earnings targets.

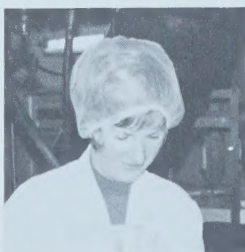
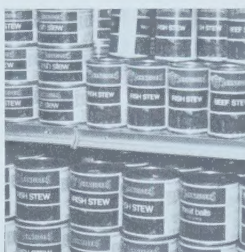
Giving support to this aim are the acquisitions of the past year. Now to be melded and consolidated, the acquired companies give us new products and greater capability for broader market penetration.

CORPORATE EXPANSION

During the year the balance of outstanding shares of Weidman Bros. Limited of Winnipeg was acquired to bring our interest in this company to 100%. This was necessary to achieve the kind of in-depth integration and co-ordination which we felt was essential. To broaden the product line of the Weidman organization in Winnipeg, the A & A Frozen Food operation was also purchased.

Subsequent to year-end, the Chicago Kosher group of companies was acquired, with the purchase agreement closed December 8, 1972. This Winnipeg group manufactures and distributes a variety of sausage and pickled herring products to western Canada. This company will benefit from our well-developed sales and distribution system in western Canada, with the product line basically complementary to our own. The new products will be moved into eastern markets and should favorably affect our sales and earnings.

Near the end of the fiscal year, Schneiders also entered into an agreement to buy the O.K. Packers group of companies which operates pork and beef slaughtering facilities in Winnipeg. This source of fresh pork and beef in



Manitoba will complement our line of processed products which is now moving into that market. Additionally, O.K. Packers will be a valuable source of raw material for processing operations in Kitchener, Winnipeg and in Vancouver.

Economy Sausage Company, also purchased in 1972, has been manufacturing a variety of sausage products for the British Columbia market. This company's facilities and distribution system will be useful to us in helping to expand sales for other Schneider products in the rapidly-growing British Columbia market.

Management welcomes to the Schneider organization all the people involved with the companies acquired during 1972. The task now is to rationalize our production and raw material procurement to the maximum, a task we are sure the new employees will fully support in our progress toward becoming a truly national organization.

FINANCIAL GROWTH

In order to carry out some of the corporate acquisitions, to accelerate the Kitchener plant expansion and to provide additional working capital for general purposes, the directors sought shareholder approval to issue from the treasury 450,000 class 'B' preference shares. This approval was granted and the issue, sold to the general public, raised a total of \$3,807,000.

Through resolutions placed before shareholders at the last annual meeting and at the special meeting in November, you are aware that an additional 282,579 'B' preference shares were approved for issue, in total, in connection with the acquisitions of Weidman Bros. Limited, the O.K. Packers and the Chicago Kosher groups of companies.

The infusion of relatively large amounts of equity capital has maintained a strong financial position for your company, even at this time of rapid growth through increased sales and acquisitions.

The changing and positive financial condition of the company is best reflected in shareholders' equity. This has increased 39% in the year, from \$14,452,000 at the end of fiscal 1971 to \$20,032,000 at the end of fiscal 1972.

As a matter of interest, the growth reflected by the key financial indicators in the past five years, since 1967, has been especially gratifying: sales have risen 101%, net earnings have

advanced 94.6% with the net per share gain at 72.2%, even though there are now many more shares outstanding.

In the past year, dividends were increased, with 28¢ paid on the common and preferred 'B' and 'C' shares compared to 26¢ paid in the 1971 fiscal year.

Along with shareholders, the company's employees are also in a position to share in the results of their efforts and commitment — a concern of long-standing to Schneider management. This is facilitated through the profit incentive bonus and the stock purchase plans.

Effective in the 1973 fiscal year, the profit incentive bonus is revised to reflect increased public investment in the company. The revised plan first provides for a set-aside of 20% shareholders' equity and then limits payout to employees to a maximum 10% of profit before tax.

The stock option plan permits senior management people to acquire shares. All other employees may purchase shares on instalments, through payroll deductions. A total of 65,000 'B' preference shares offered to employees for purchase in 1973 was fully subscribed.

The directors firmly believe that these plans work to genuinely strengthen our employees' interest in the company's welfare.

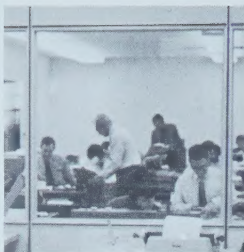
WIDER OPERATIONS

Wider national operations have necessitated changes in our corporate organization. In senior management, activities have been divided into five major areas: finance, operations, sales and marketing, research and development, personnel and public relations. Vice-presidents have been named to oversee the activities in each area. Local plant managers have responsibilities both to the vice-president concerned with their function and to the president for achieving performance targets.

Continued emphasis is being placed on new product development, through a research and development section which is geared for practical, rather than theoretical, results.

It is a priority concern of management to stress development of "value-added" products, those which are characterized by packaging and convenience that are attractive to consumers and which, generally provide a greater return on sales.

In today's food market one of the most



rapidly growing segments is away-from-home meals. Recognizing this, Schneiders is developing new or adapting old products to suit the hotel, restaurant and institutional trade. To be successful in this field, special processing and marketing approaches are necessary to assure customers the product and service demanded by the market.

The new Weidman food distribution operations in Winnipeg and Thunder Bay are working to supply all the weekly requirements of food service customers, thus being able to offer maximum economies in warehousing, distribution and selling. Management is gratified with the gains made in 1972 in this special market. Further progress is anticipated and, to achieve it, the company's distribution techniques and data processing system will play important roles.

Approximately 70% of our total distribution is handled by Schneiders own vehicles, much of it directly from Kitchener to points between Vancouver, B.C. and St. John's, Nfld.

To achieve higher sales targets and maximize capabilities in productivity, yield and quality, it became imperative to accelerate the building program at the Kitchener plant where a major addition was started early in 1972. It is expected the expansion will be completed by the end of fiscal 1973.

Total capital expenditures in 1972 amounted to \$2,950,000. These funds were largely spent for the initial phase of the Kitchener plant addition.

The continuing program related to environmental care and control of pollution sources remains a priority concern within the company's general scope of operations. Since completion of the Kitchener plant primary water treatment facility in 1969, at a cost of \$534,000 Schneiders has carried forward control efforts aimed primarily at cleaner air and water objectives.

Currently, some \$250,000 has been budgeted, covering the program in the 1971-73 periods. By the spring of 1973 all smokehouses will be utilizing processes that control air emissions. The company is very close to meeting the strength of sewage by-law requirements of the City of Kitchener and steady progress is being made toward complete elimination of barn odours.

In all these areas of pollution and wastes control, the major capital outlays have been made and management does not anticipate further heavy expenses to achieve its targets.

HUMAN RESOURCES

Various changes occurred in 1972, affecting that most vital asset of the J. M. Schneider, Limited organization — the company's human resources.

Through the new companies which became part of the corporate structure, approximately 250 employees were added, bringing the total number of men and women employed by the company across Canada to more than 2200.

Reorganization of senior management was carried out, with five vice-presidents now dividing responsibilities in operations, finance and administration, sales and marketing, research and development, personnel and public relations. Product planning managers have assumed greater responsibility in view of the increasing national reach of the company. These changes were completed subsequent to year-end.

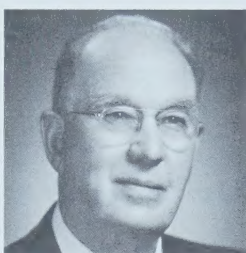
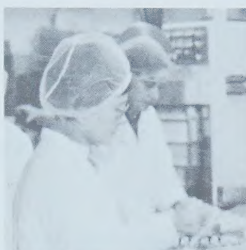
The position of Honorary Director has been created and Mr. Norman C. Schneider is the first to be elected to this post. Mr. Schneider, after more than 61 years with the company as an employee, officer and director, has retired as an active member of the board.

Further to the retirement of Mr. Norman Schneider, Mr. E. H. Bull has retired from the board after serving for 35 years as an employee, officer and director. Mr. A. T. L. Fraser, vice-president, McLeod, Young, Weir & Company, has just recently resigned as a Director from our Board after serving almost 4 years. Newly-elected to the board in 1972 was Mr. Howard W. Main who is executive vice-president, marketing of Electrohome Limited, Kitchener, Ontario, and early in 1973 Mr. Milton R. Good, who is president and general manager of H. Boehmer & Co. Limited, Kitchener, Ontario.

GENERAL OUTLOOK

Processed meat products and fresh meat continue to be the foundation of our business. We recognize that development of new products, as protein replacements or supplements, can be expected as consumers' economics and preferences change. But we are confident that in the long-term the high nutritional quality of meat and its natural taste will ensure popularity and acceptance as a staple food.

The situation with our basic raw materials in 1972 was characterized by shortages of pork with resulting high prices. Between October



N. C. Schneider

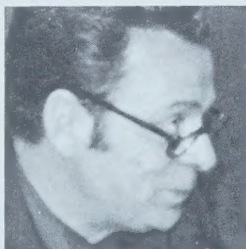
1971, and October 1972, the price of hogs on the Toronto market increased 59%. While the supply of beef was slightly higher in Canada in 1972, the increased demand meant higher prices for beef as well. For 1973, we expect that higher prices will continue for these supplies.

Substantial increases were experienced in the past year in overhead and fixed costs. Further increases are anticipated and there will be a continuing onus on management to develop efficiencies to help control these overhead increases.

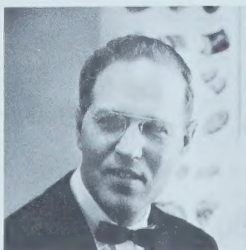
Despite these pressures, your company looks forward to a year of growth, especially in enlargement of markets. Our sales and earnings targets for 1973 are ambitious. Given a year free of any new or temporary government controls that tend to penalize efficiency, your company should further enlarge its share of the food industry market and again report higher sales and earnings.

Through the past year the efforts and enthusiasm of our employees have been significant factors in the success of the company. The directors wish to sincerely thank all employees for their loyalty and hard work. At the same time, the company appreciates the confidence of the investing public and extends a warm welcome to the many new shareholders in the past year.

Sincerely,



K. G. Murray,
President



F. P. Schneider,
Chairman

J. M. Schneider, Limited • Consolidated Balance Sheet - October 28, 1972

(with comparative figures at October 30, 1971)

Assets

	1972	1971
	(in thousands)	
CURRENT ASSETS		
Accounts receivable	\$ 5,652	\$ 3,446
Inventories (note 2)	10,314	5,922
Other	688	545
TOTAL CURRENT ASSETS	<u>16,654</u>	<u>9,913</u>
INVESTMENTS, at cost		
Investment in shares of J. M. Schneider Foods Limited, (note 3)		38
Other	56	20
TOTAL INVESTMENTS	<u>56</u>	<u>58</u>
FIXED ASSETS (note 4)		
Land and improved areas, buildings, machinery and equipment, at cost	24,300	21,364
Less accumulated depreciation	10,763	9,317
TOTAL FIXED ASSETS	<u>13,537</u>	<u>12,047</u>
EXCESS OF COST OVER BOOK VALUE at dates of acquiring shares of subsidiaries, less amortization (note 1)	1,534	157
TOTAL ASSETS	<u>\$31,781</u>	<u>\$22,175</u>

Approved by the Board:

F. P. Schneider, Director

D. C. Jamieson, Director

Liabilities

	1972	1971
	(in thousands)	
CURRENT LIABILITIES		
Bank advances	\$ 2,602	\$ 462
Accounts payable and accrued liabilities	5,244	3,706
Income taxes payable	241	103
6% Debenture due December 31, 1972	37	
Principal due within one year on long term debt	26	24
TOTAL CURRENT LIABILITIES	8,150	4,295
LONG TERM DEBT (note 5)	2,239	2,218
DEFERRED INCOME TAXES	1,360	1,210

Shareholders' Equity

CAPITAL STOCK (note 6)	5,364	1,190
CONTRIBUTED SURPLUS (note 7 (a))	468	468
RETAINED EARNINGS	14,200	12,794
TOTAL SHAREHOLDERS' EQUITY	20,032	14,452
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$31,781	\$22,175

CONTINGENT LIABILITIES AND COMMITMENTS (notes 4, 7 and 9)

Auditors' Report

To the Shareholders of J. M. Schneider, Limited

We have examined the consolidated balance sheet of J. M. Schneider, Limited as at October 28, 1972 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at October 28, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Kitchener, Ontario
November 27, 1972

Thorne, Gunn & Co.
Chartered Accountants

J. M. Schneider, Limited • Consolidated Statement of Earnings

YEAR ENDED OCTOBER 28, 1972
(with comparative figures for 1971)

	1972	1971
	(in thousands)	
Sales	\$116,465	\$84,163
Expenses		
Raw materials	76,710	49,893
Packaging materials	4,445	3,985
Manufacturing	18,523	16,641
Marketing and distribution	8,520	6,947
Administrative and general	3,004	2,253
Interest on long term debt	191	88
Depreciation	1,357	1,171
	<u>112,750</u>	<u>80,978</u>
Earnings before income taxes	3,715	3,185
Income taxes	1,708	1,599
NET EARNINGS FOR THE YEAR	<u>\$ 2,007</u>	<u>\$ 1,586</u>
EARNINGS PER SHARE (note 8)		
Basic earnings per share	93¢	84¢
Fully diluted earnings per share	91¢	84¢

J. M. Schneider, Limited • Consolidated Statement of Retained Earnings

YEAR ENDED OCTOBER 28, 1972
(with comparative figures for 1971)

	1972	1971
	(in thousands)	
Balance at beginning of year	\$12,794	\$11,702
Net earnings for the year	2,007	1,586
	<u>14,801</u>	<u>13,288</u>
Dividends on		
Class B preference shares, in cash	290	203
Class C preference shares		
Cash	130	
Class A preference shares	44	163
Tax paid on undistributed income	31	29
Common shares, in cash	106	99
	<u>601</u>	<u>494</u>
BALANCE AT END OF YEAR	<u>\$14,200</u>	<u>\$12,794</u>

J. M. Schneider, Limited • Consolidated Statement of Source and Application of Funds

YEAR ENDED OCTOBER 28, 1972
(with comparative figures for 1971)

Source of Funds

	1972	1971
	(in thousands)	
Operations		
Net earnings for the year	\$2,007	1,550
Items not involving current funds		
Depreciation and amortization	1,382	1,175
Deferred income taxes	150	112
	3,539	2,873
Issue of Class B preference shares		
For cash	3,807	
For acquisition of Weidman Bros. Limited	367	
Sales of fixed assets	103	28
Increase in long term debt	48	2,073
Consolidation of investment in J. M. Schneider Foods Limited	38	
	7,902	4,974

Application of Funds

Additions to fixed assets		
On acquisition of subsidiary companies	271	
Other	2,679	3,509
Excess of cost over book values at dates of acquiring		
shares of subsidiary companies	1,402	161
Dividends, including tax paid on undistributed income	601	494
Investment in other assets	36	
Decrease in non-current portion of long term debt	27	24
	5,016	4,188
INCREASE IN WORKING CAPITAL	2,886	786
WORKING CAPITAL AT BEGINNING OF YEAR	5,618	4,832
WORKING CAPITAL AT END OF YEAR	\$8,504	\$5,618

J. M. Schneider, Limited • Notes to Consolidated Financial Statements

YEAR ENDED OCTOBER 28, 1972

1. BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the wholly owned subsidiary companies as follows:

J. M. Schneider (Manitoba) Limited

In 1972, the thirteen month period ended October 28, 1972.

In 1971, the year ended September 25, 1971.

The period ended October 28, 1972 includes the earnings from the business and assets acquired on November 1, 1971 from Drapkin and Sons Limited and Helen Drapkin.

Apple Hill Cheese Limited (formerly Apple Hill Dairy Limited)

In 1972, the fourteen month period ended October 28, 1972.

In 1971, the period from acquisition on January 1, 1971 to August 28, 1971.

J. M. Schneider Foods Limited (formerly Schneider-Hormel Limited (note 3))

In 1972, the period from August 29, 1971 to October 28, 1972.

Weidman Bros. Limited

In 1972, the period from November 20, 1971, the effective date of acquisition, to October 28, 1972.

A. & A. Frozen Foods Ltd.

In 1972, the period from June 10, 1972, the date of acquisition, to October 28, 1972.

Economy Sausage Company Ltd.

In 1972, the period from September 1, 1972, the effective date of acquisition, to October 28, 1972.

The excess of cost over book value at date of acquiring shares of the subsidiaries is being amortized on a straight line basis over forty years with \$25,000 (\$4,000 in 1971) deducted in computing earnings for the year.

2. INVENTORIES

	1972	1971
Products	\$ 9,795,000	\$5,413,000
Supplies	519,000	509,000
	<u>\$10,314,000</u>	<u>\$5,922,000</u>

Products are valued at lower of cost and net realizable value.

Supplies are valued at lower of cost and replacement cost.

3. INVESTMENT IN SHARES OF J. M. SCHNEIDER FOODS LIMITED

The company acquired a 50% interest in J. M. Schneider Foods Limited on April 30, 1970 and purchased the remaining 50% interest on June 10, 1972 for cash.

These consolidated statements reflect the company's share of earnings and loss of the subsidiary for the period from August 29, 1971 to October 28, 1972 as follows:

Period of 41 weeks ended June 10, 1972

50% of loss sustained \$(61,000)

Period of 20 weeks ended October 28, 1972

100% of earnings 46,000

4. FIXED ASSETS

	1972		1971	
	Cost	Accumulation depreciation	Net	Net
Land and improved areas ..\$	654,000	\$ 43,000	\$ 611,000	\$ 548,000
Buildings	10,210,000	3,297,000	6,913,000	6,166,000
Machinery and equipment	13,436,000	7,423,000	6,013,000	5,333,000
	<u>\$24,300,000</u>	<u>\$10,763,000</u>	<u>\$13,537,000</u>	<u>\$12,047,000</u>

Depreciation is provided on a straight line basis to amortize the cost of the assets over their estimated useful life.

Additional outlays of approximately \$600,000 are required for the completion of capital projects under construction. The Board of Directors has approved a 1973 capital expenditure program of \$4,250,000.

5. LONG TERM DEBT

	1972	1971
Purchase payment due July 14, 1974 (note 7 (d))	\$ 48,000	
7% First mortgage serial bonds with interest payable semi-annually, principal payable \$12,000 in 1973, \$13,000 in 1974 and maturing January 2, 1975	62,000	\$ 73,000
9½ % Debenture, payable \$2,000 monthly including principal and interest and maturing September 1, 1980	155,000	169,000

8½ % Debenture, with interest payable semi-annually, principal payable \$100,000 annually commencing June 1, 1977 and maturing June 1, 1991	2,000,000	2,000,000
	<u>2,265,000</u>	<u>2,242,000</u>
Less principal included in current liabilities	26,000	24,000
	<u>\$2,239,000</u>	<u>\$2,218,000</u>

A first mortgage on land and buildings of Apple Hill Cheese Limited, a fixed and specific charge on land, building, fixtures and equipment of J. M. Schneider (Manitoba) Limited and a floating charge on all assets of J. M. Schneider, Limited and J. M. Schneider (Manitoba) Limited have been given as security for long term debt.

6. CAPITAL STOCK

The authorized and issued capital stock as at October 28, 1972 is as follows:

Authorized			
2,733,086	6% Non-voting non-cumulative Class A preference shares redeemable at par value of 20¢ per share (1971, 2,953,033 shares)		
1,758,064	24¢ Cumulative participating Class B preference shares without par value (1971, 1,760,482 shares)		
742,936	24¢ Cumulative participating Class C preference shares without par value (1971, 740,518 shares)		
580,825	Common shares (1972 and 1971)		
Issued			
		<u>1972</u>	<u>1971</u>
1,273,173	Class B preference shares (1971, 779,678 shares) ...	\$4,662,000	\$ 489,000
741,936	Class C preference shares (1971, 739,518 shares) ...	464,000	463,000
379,799	Common shares (1972 and 1971) ..	238,000	238,000
		<u>\$5,364,000</u>	<u>\$1,190,000</u>

During the year 219,947 (1971, 817,847) Class A preference shares were issued as stock dividends and were subsequently redeemed.

For the acquisition of Weidman Bros. Limited 45,913 Class B preference shares were issued at \$8.00 per share.

On May 2, 1972 the company issued 450,000 cumulative, participating, Class B preference shares for cash of \$3,807,000.

The cumulative participating Class B preference shares and the cumulative participating Class C preference shares are convertible one into the other at any time at the option of the holder. By virtue of The Business Corporations Act, upon any such conversion, the number of authorized and outstanding shares of each class affected by such conversion is changed accordingly.

During the year the company granted to its employees options to purchase a total of 65,000 Class B shares at a price of \$9.00 per share under the J. M. Schneider, Limited Employees Payroll Deduction Capital Purchase Plan. These options have been allotted to employees and will be paid for by payroll deduction over the next fifty weeks. Unpaid options expire October 13, 1973.

The company has reserved under its Stock Option Plan 25,000 Class B shares for issuance upon the exercise of options which may be granted at the discretion of the Board of Directors to executives and key employees of the company. Such shares are to be issued at a price not less than the greater of (a) the average of the high and low sale price for such shares as reported by The Toronto Stock Exchange for the week previous to the time of the granting of the option or (b) 90% of the market price (as defined) of such shares at the time of granting the option. The option period may extend up to five years from date of grant and such option may be exercised in full at any time during such period. Under this plan the company has granted the following options:

Year	Number of shares	Price per share	Date of Expiry
1969	3,358	\$7.50	July 23, 1974
1972	17,000	\$9.00	August 31, 1977

None of the above options have been exercised.

Subsequent to the year end the shareholders approved special resolutions of the Board of Directors dated October 18, 1972, and November 27, 1972:

- (1) Authorizing an application for amendment of the Articles of Incorporation of the Corporation:
 - (a) reclassifying the 201,026 unissued common shares without par value into 201,026 cumulative participating Class B preference shares without par value ranking on a parity with the existing cumulative participating Class B preference shares without par value;

- (b) reclassifying and changing the 2,733,086 unissued Class A non-voting non-cumulative preference shares with a par value of 20¢ each into 2,733,086 cumulative participating Class B preference shares without par value ranking on a parity with the existing authorized cumulative participating Class B preference shares;
 - (c) increasing the authorized capital by creating an additional 65,888 cumulative participating Class B preference shares without par value to rank on a parity with the existing cumulative participating Class B preference shares without par value provided that the aggregate consideration for the issue of the total 5,500,000 cumulative participating Class B preference shares shall not exceed in amount or value the sum of \$36,000,000 or such greater amount as the Board of Directors by resolution determines provided that such resolution shall not be effective until a certified copy thereof has been filed with the Minister, all prescribed fees have been paid and the Minister has so certified;
 - (d) varying certain conditions and preferences attaching to the Class B and Class C preference shares.
- (2) Authorizing the issuance of 70,000 cumulative participating Class B preference shares (note 9 (a)).
 - (3) Authorizing the issuance of 166,666 cumulative participating Class B preference shares (note 9 (b)).
- 7. CONTINGENT LIABILITIES AND COMMITMENTS**
- (a) An interest free loan of \$250,000 received from the Ontario Development Corporation in 1970 and included in contributed surplus will be forgiven over a period of six years from the date of receipt provided the company continues to operate its meat processing plant at Ayr, Ontario. An amount of \$25,000 was forgiven in each of the 1971 and 1972 years.
 - (b) It is estimated that the unfunded past service obligation under pension plans amounts to \$778,000. The annual payment required to liquidate this obligation within eighteen years is \$69,000. The company intends to pay this amount within the time permitted or earlier as the cash position of the company permits. The related costs will be charged against income in the year of payment.
- (c) The company or its subsidiaries are obligated under lease agreements to pay annual rentals of:
 - \$505,000 in 1973
 - 325,000 in 1974
 - 105,000 in 1975
 - 75,000 in 1976
 - 56,000 in 1977 and thereafter until 1986
 - (d) Included in long term debt is an amount of \$48,000 representing a future cash consideration based on 4,000 times the market value of one share of J. M. Schneider, Limited Class B preference shares on the second anniversary date of the purchase agreement to be paid for the acquisition of the shares of A. & A. Frozen Foods Ltd. in addition to other payments made.
- 8. EARNINGS PER SHARE**
- Basic earnings per share have been calculated using the weighted average number of shares outstanding in the year.
- Fully diluted earnings per share have been calculated assuming full exercise of the options and the adjustments to income required by this assumption.
- 9. SUBSEQUENT ACQUISITIONS**
- (a) On August 8, 1972, the company agreed to purchase all of the outstanding shares of Kosher Meat Canning Company Limited and Chicago Kosher Sausage Mfg. Co. Ltd. for a consideration of 70,000 Class B preference shares valued at \$12.00 per share. The effective date of this purchase was August 31, 1972 but the acquisition of these companies and the results of their operations from this date to October 28, 1972 have not been reflected in the accounts as the date of closing the transaction is December 8, 1972, subsequent to the date of the balance sheet.
 - (b) By agreement dated October 7, 1972 the company agreed to purchase effective December 30, 1972, the businesses, assets and goodwill of O. K. Packers, O. K. Hides Ltd. and Twin City Packers (1969) Ltd. for \$560,000 in cash and 166,666 Class B preference shares valued at \$9.00 per share. Subject to certain conditions being fulfilled, the closing date is March 15, 1973.

10. OTHER STATUTORY INFORMATION

Remuneration of directors and senior officers (as defined by The Business Corporations Act) for the year amounted to \$338,000 (\$343,000 in 1971).

The acquisition equation and other information related thereto as required by The Business Corporations Act is presented herein and in notes 1, 3, 6 and 7. All ac-

quisitions were by agreement and the purchase accounting method was used in all cases.

All companies and businesses acquired are related to the wholesale distribution of food products and in addition, Economy Sausage Company Ltd. is engaged in the manufacture of meat products.

	Drapkin Assets	J. M. Schneider Foods Limited	Weidman Bros. Limited	A. & A. Frozen Foods Ltd.	Economy Sausage Company Ltd.
Percentage of outstanding equity shares acquired . . .	Not applicable	50% (note 3)	100%	100%	100%
Effective date of acquisition	November 1, 1971	June 10, 1972	November 20, 1971	June 10, 1972	September 1, 1972
Net assets acquired					
Net assets, (liabilities) other than goodwill, at the book value of the seller		\$ (86,000)	\$185,000	\$ 30,000	\$ 56,000
Net assets at purchase price	\$225,000				
Adjustment of net assets, other than goodwill, to fair value					20,000
Goodwill on the books of the seller					3,000
Premium ascribed to goodwill	30,000	149,000	539,000	399,000	282,000
	<u>\$255,000</u>	<u>\$ 63,000</u>	<u>\$724,000</u>	<u>\$429,000</u>	<u>\$361,000</u>
Consideration given, at fair value, for net assets acquired					
Cash	\$255,000	\$ 63,000	\$357,000	\$381,000	\$361,000
Long term debt obligations (note 7 (d))				48,000	
45,913 cumulative participating Class B preference shares			367,000		
	<u>\$255,000</u>	<u>\$ 63,000</u>	<u>\$724,000</u>	<u>\$429,000</u>	<u>\$361,000</u>

Nine Year Statistical Review

(thousands of dollars)

	<u>1972</u>	<u>1971</u>	<u>1970</u>	<u>1969</u>	<u>1968</u>	<u>1967</u>	<u>1966</u>	<u>1965</u>	<u>1964</u>
Sales	\$116,465	\$84,163	\$79,289	\$70,181	\$61,067	\$57,902	\$58,898	\$48,127	\$42,526
Earnings									
Earnings before income taxes . .	\$ 3,715	\$ 3,185	\$ 2,878	\$ 2,693	\$ 2,264	\$ 2,140	\$ 2,745	\$ 1,808	\$ 1,968
Income taxes	\$ 1,708	\$ 1,599	\$ 1,531	\$ 1,444	\$ 1,195	\$ 1,109	\$ 1,399	\$ 956	\$ 1,003
Net earnings	\$ 2,007	\$ 1,586	\$ 1,347	\$ 1,249	\$ 1,069	\$ 1,031	\$ 1,346	\$ 852	\$ 965
Basic earnings per share	93¢	84¢	71¢	66¢	56¢	54¢	73¢	46¢	53¢
Percent of sales	1.72%	1.88%	1.70%	1.77%	1.75%	1.78%	2.29%	1.77%	2.27%
Dividends (including tax paid on undistributed income)	\$ 601	\$ 494	\$ 456	\$ 299	\$ 244	\$ 688	\$ 166	\$ 155	\$ 146
Rate per share	28¢	26¢	24¢	16¢	13¢	36¢	9¢	9¢	8¢
Capital expenditures	\$ 2,950	\$ 3,509	\$ 1,944	\$ 2,413	\$ 1,355	\$ 1,398	\$ 1,477	\$ 829	\$ 1,399
Depreciation and amortization . . .	\$ 1,382	\$ 1,175	\$ 998	\$ 888	\$ 859	\$ 776	\$ 626	\$ 571	\$ 525
Salaries, wages and employee benefits	\$ 21,537	\$18,767	\$15,701	\$13,953	\$12,270	\$11,466	\$ 9,978	\$ 8,840	\$ 8,031
Average number of employees . . .	2,244	1,985	1,880	1,731	1,733	1,688	1,551	1,438	1,356
Working capital	\$ 8,504	\$ 5,618	\$ 4,832	\$ 4,348	\$ 4,800	\$ 4,283	\$ 4,391	\$ 3,962	\$ 3,235
Working capital ratio	2.04	2.31	2.43	2.23	2.73	3.09	3.29	4.82	3.82
Total assets	\$ 31,781	\$22,175	\$18,012	\$16,730	\$14,907	\$13,381	\$12,734	\$10,795	\$10,094
Shareholders' equity	\$ 20,032	\$14,452	\$13,360	\$12,219	\$11,269	\$10,428	\$ 9,739	\$ 8,523	\$ 7,773
Percent return on equity	10.02%	10.97%	10.08%	10.22%	9.49%	9.89%	13.82%	9.99%	12.41%
Equity per share, in dollars	\$ 8.36	\$ 7.61	\$ 7.04	\$ 6.43	\$ 5.93	\$ 5.50	\$ 5.28	\$ 4.64	\$ 4.27
Number of shares outstanding (thousands)	2,395	1,899	1,899	1,899	1,899	1,897	1,843	1,836	1,821
Number of shareholders	2,217	1,955	2,002	1,995	506	455	422	322	272

NOTES

1. The number of shares outstanding and per share earnings and dividends have been recalculated to give effect to the stock split in 1969.
2. Basic earnings per share have been calculated using the weighted average number of shares outstanding.



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